

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Haynes Analyst: Jeani Brent Bill Number: SB 1725

Related Bills: See Prior Analysis Telephone: 845-6458 Amended Date: 05-08-2000

Attorney: Patrick Kusiak Sponsor:

SUBJECT: Exclusion/Survivor Annuities Received from Retirement from Armed Forces

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED 04-06-2000 STILL APPLIES.

X OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law, this bill would exclude from California gross income all federal military retirement benefits or payments received under a federal Survivor Benefit Plan, the Retired Serviceman's Family Protection Plan and the Supplemental Survivor Benefit Plan.

SUMMARY OF AMENDMENT

The May 8, 2000, amendments deleted the bill's prior language regarding the exclusion of the first \$20,000 of military retirement pay and certain legislative findings and added the language discussed in this analysis.

The amendments described above resolve the policy and implementation consideration in the department's prior analysis. The remainder of the department's analysis of the bill as amended April 6, 2000, still applies. The new revenue estimate is provided below.

TECHNICAL CONSIDERATIONS

The department understands from the author's staff that the bill, as amended May 8, 2000, is intended to provide an exclusion only for those benefits and payments received under the three specified plans and not for regular federal military retirement benefits. The wording of the bill is unclear and may not effect this intent. The attached amendment would clarify the language to achieve the intent.

Board Position:

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|------------------|-------------------|----------------------|
| <u> </u> S | <u> </u> NA | <u> </u> NP |
| <u> </u> SA | <u> </u> O | <u> </u> NAR |
| <u> </u> N | <u> </u> OUA | <u> X </u> PENDING |

Legislative Director

Date

Johnnie Lou Rosas

5/25/00

TAX REVENUE ESTIMATE

This revenue estimate is based on the department's understanding of the intent of this bill, as discussed in Technical Considerations, above.

Based on data and assumptions discussed below, the following revenue losses are projected to result from this bill:

| Estimated Revenue Impact of SB 1725 As Amended May 8, 2000 Assumed Effective From 1/1/00 With Enactment After 6/30/00 (In \$Millions) | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|---------------|
| Fiscal Years | 2000/01 | 2001/02 | 2002/03 |
| Revenue Impact (Rounded) | (\$17) | (\$14) | (\$14) |

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

TAX REVENUE DISCUSSION

Revenue losses would depend on the amount of qualified military survival annuity payments received in any given year for which state income taxes would otherwise be incurred.

According to available data from the U.S. Department of Defense, the amount of survivor annuities paid from specified federal retirement plans to California beneficiaries was over \$276 million in 1999. This amount was indexed by 3% annually to project the qualified payments for year 2000 and years thereafter.

This total amount was reduced 15% to allow for:

- current law exclusions for certain veterans' compensation; and
- recipients not incurring state income taxes.

A 5.5% average marginal tax rate was applied to estimate the state revenue loss (on the order of \$13 million for the 2000 taxable year).

The 2000/01 fiscal impact reflects all 2000 losses plus 25% of the year 2001 losses to allow for reduced estimated tax payments.

BOARD POSITION

Pending.

| | |
|-------------|----------------|
| Analyst | Jeani Brent |
| Telephone # | 845-3410 |
| Attorney | Patrick Kusiak |

FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 1725
As Amended May 8, 2000

AMENDMENT 1

On page 2, modify lines 22 and 23, as follows:

all federal military retirement benefits received under or payments received
under a federal Retired Serviceman's